NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. CORPORATE INFORMATION

Capstone is incorporated and domiciled in Canada and principally located at 155 Wellington Street West, Suite 2930, Toronto, Ontario, M5V 3H1. The mission of Capstone Infrastructure Corporation and its subsidiaries (together the "Corporation" or "Capstone") is to build and responsibly manage a high quality portfolio of infrastructure businesses in Canada and internationally in order to deliver a superior total return to our shareholders by providing reliable income and capital appreciation. Capstone's portfolio includes investments in gas cogeneration, wind, hydro, biomass and solar power generating facilities, representing approximately 370 MW of installed capacity, a 33.3% interest in a district heating business in Sweden, and a 50% interest in a regulated water utility in the United Kingdom.

All amounts are in Canadian thousands of dollars or thousands of share amounts unless otherwise indicated.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies are used in the preparation of these consolidated financial statements.

Basis of Preparation

Statement of compliance

The consolidated financial statements of Capstone have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements were authorized for issue by the Board of Directors on March 7, 2013.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except for the revaluation of certain financial instruments, which are measured at fair value as explained in the accounting policies set out below and on a going concern basis of accounting (see note 10). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Consolidation

These audited consolidated financial statements are primarily made up of the assets, liabilities and results of operations of the following entities: Capstone Power Corp. ("CPC"), Cardinal Power of Canada, L.P. ("Cardinal"), Erie Shores Wind Farm Limited Partnership ("Erie Shores"),

CONTENTS

MPT Hydro L.P. ("Hydro"), Whitecourt Power Limited Partnership (Whitecourt), Helios Solar A-1 Partnership ("Amherstburg Solar Park") and MPT Utilities Corp. all of which are 100% owned subsidiaries controlled by the Corporation. In addition, Capstone includes its controlling interest in Bristol Water plc and group companies (collectively "Bristol Water"), acquired on October 5, 2011. On May 10, 2012 Capstone sold a portion of its 70% indirect interest in Bristol Water and retains a 50% indirect interest in Bristol Water and continues to consolidate based on retention of control.

The Corporation accounts for its controlled investments using the consolidation method of accounting from the date control is obtained and deconsolidates from the date that control ceases. All intercompany balances and transactions have been eliminated on consolidation.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity. Changes in the Corporation's interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

The Corporation, through its wholly-owned subsidiaries, uses the equity method to account for its interests in Macquarie Long Term Care L.P. ("MLTCLP"), Chapais Électrique Limitée ("Chapais") for all reporting periods and for its interest in Värmevärden AB ("Värmevärden") from March 31, 2011, the date of acquisition.

Business Combinations

The acquisitions of businesses are accounted for using the purchase method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets transferred, liabilities incurred or assumed, and equity instruments issued by the Corporation in exchange for control of the acquired business. The acquired business identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3R, Business Combinations ("IFRS 3R") are recognized at their fair value at the acquisition date.

To the extent the fair value of consideration paid exceeds the fair value of the net identifiable tangible and intangible assets, goodwill is recognized.

The Corporation recognizes any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Foreign Currency Translation

Functional and presentation currency

Amounts included in the financial statements of each consolidated entity in the Corporation are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Canadian dollars ("presentation currency"), which is Capstone's functional currency. The exchange rates used in the translation to the presentation currency are as follows:

	Swedish krona (SEK)		Pound sterling (£)	
As at and for the year ended	Average	Spot	Average	Spot
Dec 31, 2011	0.1525 (1)	0.1479	1.6076 (2)	1.5799
Dec 31, 2012	**0.1476**	**0.1528**	**1.5840**	**1.6178**

(1) Nine-month period from acquisition on March 31, 2011 to December 31, 2011.
(2) Period from acquisition on October 5, 2011 to December 31, 2011.

The financial statements of entities that have a functional currency different from that of the Corporation are translated into Canadian dollars as follows: assets and liabilities – at closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation of the actual rates prevailing at the transaction dates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the consolidated statement of income in "foreign exchange gain (loss)".

Cash and Cash Equivalents and Short-Term Deposits

Cash and cash equivalents are composed of highly liquid investments with original maturities of 90 days or less at the date of acquisition and are recorded at fair value.

Deposits with original maturities of greater than 90 days are classified as short-term deposits on the consolidated statement of financial position.

Inventories

Inventories are valued at the lower of purchase cost (calculated on a first in first out basis) and net realizable value.

Loans Receivable

The Corporation has interest-bearing financial assets that consist of a series of loans receivable from Chapais and Värmevärden. These financial assets are carried at amortized cost.

Equity Accounted Investments

The Corporation has significant influence, but not control, over its investments in MLTCLP, Chapais for all reporting periods, and Värmevärden from March 31, 2011. The equity method is used to account for these investments. Under the equity method, the cost of the investment is adjusted by the Corporation's share of net income (loss) and other comprehensive income (loss) and reduced by any dividends paid to the Corporation. The Corporation assesses at each year end whether there is any objective evidence that its interests in associates are impaired. If impaired, the carrying value of the Corporation's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the consolidated statement of income (loss).

Capitalized Costs

Capitalized costs related to an asset under development include all eligible expenditures incurred in connection with the development and construction of the asset until it is available for its intended use. The expenditures consist of directly attributable costs related to the asset. The Corporation capitalizes interest and borrowing costs when activities that are necessary to prepare the asset for its intended use are in progress and expenditures for the asset have been used or borrowed to fund the construction or development. Capitalization of interest and borrowing costs ceases when the asset is ready for its intended use.

Grants and Contributions

Grants are recognized at their fair value when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants and contributions related to charges in the income statement are netted against such expenditures as received.

Capital Assets

Capital assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying value of an asset is derecognized when replaced.

Major maintenance costs are capitalized in the carrying value of the assets as incurred, and depreciated over the period to the next scheduled major maintenance. Other repairs and maintenance costs are charged to the statement of income during the period incurred.

Gains or losses on disposals are determined by comparing the proceeds of sale with the carrying amount and are recognized within the income statement.

The Corporation allocates the amount initially recognized in respect of an item of capital assets to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate. The major categories of capital assets are depreciated using the straight-line method as follows:

	Power	**Utilities – water**
Equipment and vehicles:		
Computer hardware, communications, meters and telemetry equipment	3 to 25 years	3 to 15 years
Vehicles and mobile plant	3 to 15 years	5 to 7 years
Property and plant:		
Operational properties and structures	20 to 40 years	15 to 100 years
Treatment, pumping and general plant	n/a	20 to 24 years
Infrastructure assets (water network)	n/a	70 to 213 years

Infrastructure assets comprise the integrated network of impounding and pumped raw water storage reservoirs and water mains and associated underground pipework. For accounting purposes, the water system is segmented into components representing categories of asset classes with similar characteristics and asset lives. Expenditure on such assets relating to increases in capacity, enhancements or planned maintenance of the network is treated as an addition to fixed assets and is included at cost. The cost of infrastructure assets is their purchase cost together with incidental expenses of acquisition and directly attributable labour costs which are incremental to the Corporation.

Leased Assets

Assets financed by leasing agreements that transfer substantially all the risks and rewards of ownership of an asset to the lessee are capitalized and depreciated over the shorter of their estimated useful lives and the lease term. The corresponding liability is recorded as borrowings. The capital element of the lease rental is deducted from the obligation to the lessor as paid. The interest element of lease rentals and the depreciation of the relevant assets are charged to the income statement.

Operating lease rental payments are charged to the income statement on a straight-line basis as incurred over the term of the lease.

Transfers of Assets from Customers

Where an item of property, plant and equipment that must be used to connect customers to the network is received from a customer, or where cash is received from a customer for the acquisition or construction of such an item, that asset is recorded and measured on initial recognition at its fair value in accordance with IFRIC 18. The period over which the credit is recognized depends upon the nature of the service provided by the Corporation as determined by the agreement with the customer. If the agreement does not specify a period, the revenue is treated as deferred income and recognized over a period no longer than the useful life of the transferred asset used to provide the ongoing service.

Intangible Assets

Identifiable intangible assets

The Corporation separately identifies acquired intangible assets including computer software and system developments, electricity supply contracts, gas purchase contracts, water rights and licences and records each at their fair value at the date of acquisition. The initial fair value is amortized over their estimated useful lives using the straight-line method as follows:

	Power	**Utilities – water**
Computer software	3 to 7 years	3 to 7 years
Electricity supply and gas purchase contracts	8 to 20 years	n/a
Water rights	10 to 35 years	n/a
Licences	n/a	Indefinite life

The expected useful lives of intangible assets are reviewed on an annual basis and adjusted prospectively.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Corporation's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses. Impairment losses are recognized in "other gains and (losses), net". Goodwill is allocated to each cash-generating unit ("CGU") or group of CGUs that are expected to benefit from the related business combination. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Impairment of Non-financial Assets

The capital assets and intangible assets with finite lives are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. The recoverable amount is the higher of an asset's fair value less costs to sell the assets and the value in use (being the present value of the expected future cash flows of the relevant assets or CGU). An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The Corporation evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

Goodwill and intangible assets with indefinite lives are reviewed for impairment annually or at any time when an indicator of impairment exists. Management monitors goodwill and intangible assets with indefinite lives for internal purposes based on its CGUs. For 2012, all such assets were included in the utilities – water segment.

Provisions

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured using management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Corporation performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Retirement Benefit Plans

The Corporation operates both defined contribution and defined benefit pension plans, through its subsidiaries. The employees of Bristol Water and Cardinal participate in a defined contribution plan. The defined benefit plan is provided through Bristol Water's membership in the Water Companies' Pension Scheme ("WCPS") via a separate section.

Costs of defined contribution pension plans are charged to the income statement in the period in which they fall due. Administration costs of defined contribution plans are borne by Bristol Water and Cardinal.

Defined benefit plan liabilities are measured by an independent actuary using the projected unit credit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability. The increase in the present value of the liabilities of Bristol Water's defined benefit pension plan expected to arise from employee service in the period is charged to operating profit. The expected return on the plan's assets and the increase during the period in the present value of the plan's liabilities, arising from the passage of time, is included in other finance income or cost.

The net asset or liability recognized in the balance sheet represents the present value of the defined benefit obligation less the fair value of the plan's assets. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are recognized in full in the period in which they occur in the consolidated statement of comprehensive income.

Past service costs are charged to the income statement on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement or a curtailment occurs the change in the present value of the plan liabilities and the fair value of the plan assets reflects the gain or loss which is recognized in the income statement. Losses are measured at the date that Bristol Water becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

Asset Retirement Obligations

The Corporation recognizes a provision for the future retirement obligations associated with its operating plants. These obligations are initially measured at fair value, which is the discounted future cost of the liability. A reassessment of the expected costs associated with these liabilities is performed annually with changes in the estimates of timing or amount of cash flows added or deducted from the cost of the related asset. The liability accretes until the date of expected settlement of the retirement obligations.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a reduction in equity.

Exchangeable Securities

The Class B exchangeable units issued by MPT LTC Holding LP meet the criteria to be presented as equity, as set out in IAS 32.

Preferred Shares

The Corporation classifies its series A preferred shares as equity for reporting purposes given that the preferred shares may be converted into a fixed number of the Corporation's own equity instruments and there is no settlement required at a future date. Incremental costs directly attributable to the issuance of shares are recognized as a reduction in equity.

The irredeemable preferred shares of Bristol Water have been classified as debt in accordance with IAS 39.

Dividends

Dividends on common and series A preferred shares are recognized in the Corporation's consolidated financial statements in the period in which the dividends are approved by the Board of Directors of the Corporation.

Revenue and Expense Recognition

Revenue derived from the sale of electricity and steam is recognized upon delivery to the customer and priced in accordance with the provisions of the applicable electricity and steam sales agreements. Certain power purchase arrangements ("PPAs") provide for an electricity rate adjustment, which is updated periodically both for the current and prior periods. The Corporation accounts for such adjustments when a reliable estimate of the adjustment can be determined. Revenue derived from Whitecourt electricity sales to the Alberta power pool in excess of the volume as stipulated in the PPA is recorded at the hourly power pool rate. Cardinal has a profit-sharing arrangement with Husky Energy Marketing Inc. ("Husky Marketing") to sell excess gas not used in its operations in the market. Net proceeds from gas mitigation are recognized as revenue when delivery has taken place.

Capstone follows Accounting for Government Grants and disclosure of Government Assistance (IAS 20) with respect to certain power contracts with provincial jurisdictions.

Revenue from the sale of water is recognized upon delivery to the customer and priced in accordance with regulatory pricing. Revenue from metered supplies is based upon actual volumes of water invoiced plus estimated volumes of water not invoiced but delivered to customers during the year.

Costs related to the purchases of fuel are recorded upon delivery. All other costs are recorded as incurred.

Project development costs are recorded as incurred. These costs include the activities to pursue and develop greenfield projects in the power segment and acquisition related business development expenses incurred at corporate.

Deferred Share Unit Plan

The Corporation has a Deferred Share Unit ("DSU") plan for eligible directors of Capstone as described in note 22 (a) to these consolidated financial statements. The Corporation accounts for DSUs as an expense over the vesting period of the DSUs using the fair value of the underlying common shares, as determined by the closing price of the Corporation's publicly traded common shares on the reporting date.

Long-term Incentive Plan

The Corporation has a long-term incentive plan ("LTIP") for members of senior management as described in note 22 (b). The Corporation accounts for its grants under this plan in accordance with IFRS 2 Share-Based Payments. Compensation expense is measured at the grant date at fair value and recognized over the service period, based on the vesting period applicable and is adjusted for any changes in market value of the Corporation's share price.

Income Taxes

Current and deferred income taxes are recognized in the consolidated statement of income except to the extent that they relate to items recognized directly in equity, in which case, the income tax is also recognized directly in equity.

Current income tax is the amount recoverable or expensed based on the current year's taxable income using tax rates enacted, or substantively enacted, at the reporting period, and any adjustments to income tax payable or recoveries in respect of previous years.

The Corporation follows the liability method of accounting for deferred income tax whereby deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Deferred income tax is determined using income tax rates and laws that have been enacted or substantively enacted as at the date of the consolidated statement of financial position and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable that the asset can be recovered. Deferred income tax assets and liabilities are presented as non-current.

Basic and Diluted Earnings per Share

Basic earnings per share is calculated by dividing the net income attributable to the shareholders' of Capstone, less dividends declared to preferred shareholders by the weighted average number of common shares and Class B exchangeable units of MPT LTC Holding LP.

Diluted earnings per share is computed in a similar manner as the basic earnings per share but reflects any dilutive effect from the conversion of debentures into shares. Debenture conversions are excluded from the computation of diluted net income per share if their effect is anti-dilutive.

Comprehensive Income

Other comprehensive income ("OCI") represents changes in shareholders' equity during a period arising from transactions and other events including unrealized gains and losses on translation of net assets of foreign operations, the equity share of OCI of equity accounted investments and actuarial gains recognized in respect of retirement benefit obligations. OCI also includes the effective portion of the change in fair value of designated cash flow hedges of Bristol Water less any amounts reclassified to interest and other expenses, net, in the period the underlying hedged item is also recorded in interest and other expenses, net. Accumulated other comprehensive income ("AOCI") is included as a component in the consolidated statement of shareholders' equity.

Financial Instruments

Financial assets and financial liabilities are recognized on the consolidated statement of financial position when the Corporation becomes a party to the contractual provisions of the financial instrument. Financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. The Corporation has designated each of its significant categories of financial instruments outstanding as follows:

Classification	Significant Categories	Measurement
Financial assets and liabilities at fair value through profit and loss	• Cash and cash equivalents • Restricted cash • Short-term deposits • Derivative contract assets • Derivative contract liabilities	• At fair value with changes in fair value recognized in the consolidated statement of income
Loans and receivables	• Accounts receivable • Loans receivable	• At amortized cost using the effective interest method
Other liabilities	• Accounts payable and other liabilities • Loans payable • Finance lease obligations • Long-term debt	• At amortized cost using the effective interest method

Transaction costs relating to financial instruments classified as loans and receivables and other liabilities are deferred and amortized over the expected life of the instrument using the effective interest method. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as held-for-trading are expensed as incurred.

The Corporation determines the fair value of its financial instruments based on the following hierarchy:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Derivative Financial Instruments

The Corporation's derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. For the year ended December 31, 2012, the Corporation's derivatives include interest rate swaps and foreign currency contracts.

Changes in the fair values of derivative financial instruments are reported in the consolidated statement of income for the year ended December 31, 2012, except for cash flow hedges that meet the conditions for hedge accounting. The portion of the gain or loss on the hedging instruments which are determined to be an effective hedge are recognized directly in other comprehensive income, and the ineffective portion in the income statement. Gains or losses recognized in other comprehensive income are subsequently recognized in the consolidated statement of income in the same period in which the hedged underlying transaction or firm commitment is recognized in the statement of income.

In order to qualify for hedge accounting, the Corporation is required to document in advance the relationship between the item being hedged and the hedging instrument. The Corporation is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is re-performed at the end of each reporting period to ensure that the hedge remains highly effective.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for at fair value when their economic characteristics and risks are not closely related to those of the host contract. The Corporation has determined that Cardinal's gas purchase contract contains embedded derivatives requiring separation and measurement at fair value. The features requiring separation include mitigation options and indexing features (see note 9).

Impairment of Financial Assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss on financial assets carried at amortized cost. The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted by using the instrument's original effective interest rate. The carrying value of the asset is reduced by the loss either directly or indirectly through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as the chief executive officer of Capstone.

Earnings before Interest Expense, Taxes, Depreciation and Amortization ("EBITDA")

EBITDA is calculated from the Corporation's earnings excluding interest expense, income taxes, depreciation and amortization. EBITDA includes the Corporation's interest income which is derived from shareholder loans with equity accounted investments, cash and cash equivalents, restricted cash and short-term deposits. EBITDA represents Capstone's continuing capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible capital assets and intangible assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. EBITDA is presented on the consolidated statement of income.

Future Accounting Changes

In 2012, the IASB issued the following standards which have not yet been adopted by the Corporation:

Title of the New IFRS	Nature of the Impending Change to Capstone	Impact to Capstone
IFRS 9, Jan 1, 2015 Financial Instruments	Replaces IAS 39 which addresses the classification and measurement of financial assets. As well as the measurement methodology for debt and equity instruments.	Capstone's assessment of the impact of this standard is ongoing.
IFRS 10, 11 and 12, Jan 1, 2013 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities	Establishes disclosure requirements for interests in other entities.	Capstone will adopt IFRS 10, 11 and 12 for the annual period beginning on January 1, 2013. Implementation of these standards will have no material impact on Capstone's consolidated financial statements, but will increase disclosure of interests in other entities.
IFRS 13, Jan 1, 2013 Fair Value Measurement	A comprehensive standard for fair value measurement and disclosure across all IFRS.	Capstone will adopt IFRS 13 prospectively beginning on January 1, 2013. Implementation of this standard will have no material impact on Capstone's consolidated financial statements.
IAS 19, Jan 1, 2013 Employee Benefits	Standard has been amended for the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in other comprehensive income as they arise, without subsequent recycling to net income. This is consistent with Capstone's current accounting policy. Various other amendments have been made to recognition, measurement, classification and expanded disclosures.	Capstone will adopt the amendment to IAS 19 retrospectively as a change in accounting policy for the annual period beginning on January 1, 2013. Implementation of this amendment is limited to Bristol Water which has a defined benefit pension plan. The impact on Capstone's consolidated financial statements is: i) The expected return on plan assets must be calculated using the same discount rate as the pension obligation, which will affect interest expense and net income, and is then offset in comprehensive income. ii) Certain costs will be required to be recognized as period costs and will be reclassified from net interest in the statement of income to current service costs which are included in operating expenses.
IAS 27, Jan 1, 2013 Separate Financial Statements	Amendments are to be consistent with changes to IFRS 10 to 13.	Capstone will adopt the amendment to IAS 27 for the annual period beginning on January 1, 2013. Implementation will have no material impact on Capstone's consolidated financial statements.
IAS 28, Jan 1, 2013 Investments in Associates and Joint Ventures	Amendments are to be consistency with changes to IFRS 10 to 13.	Capstone will adopt the amendment to IAS 28 for the annual period beginning on January 1, 2013. Implementation will have no material impact on Capstone's consolidated financial statements.

Critical Accounting Estimates and Judgments

The Corporation makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Corporation's financial statements. These estimates and judgments have a risk of causing a material adjustment to the carrying values of financial assets and financial liabilities within the next financial year.

Area of Significance	Critical Estimate	Critical Judgment
Financial instrument fair value measurements When observable prices are not available, fair values are determined by using valuation techniques that refer to observable market data. This is specifically related to Capstone's financial instruments.	• Management's valuation techniques include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. • For embedded derivatives, fair values are determined from valuation techniques using non-observable market data or transaction processes. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate.	• Interest rate • Natural gas rate • Direct customer rate
Accounts receivable The allowance for doubtful accounts for Bristol Water is calculated based on an assessment of expected cash flows. Collective impairment losses on receivables with similar credit risk are calculated using a statistical model.	• The probability of failing to recover accounts receivable is determined by considering past experience, adjusted for changes in external factors. The accuracy of the impairment calculation would therefore be affected by unexpected changes to the economic situation, and to changes in customer behavior. To the extent that the failure to recover debts in arrears alters by 5%, the provision for impairment would increase or decrease by $809.	• Probability of a failure to recover accounts receivable when they fall into arrears
Capital and intangible assets – Carrying values Fair value estimates are required in the determination of the net assets acquired in a business combination and in the impairment assessment for our capital assets and the assignment of amounts to the asset retirement obligations.	• Estimates are based on assumptions that are sensitive to change, which may have a significant impact on the valuations performed. • Impairment reviews of the carrying value of capital and other long-lived assets along with the asset retirement obligations require management to estimate fair value based on future cash flows, discount rates and business performance.	• Initial fair value of net assets • Estimated useful lives and residual value • Estimated future cash flows • Expected settlement date and amount • Discount rate
Retirement benefits The present value of defined benefit pension obligations is dependent on actuarial calculations, which include a number of assumptions.	• Assumptions include the discount rate, which is used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Corporation considers market yields of high quality corporate bonds, denominated in UK pounds sterling, that have times to maturity approximating the terms of the pension liability.	• Future cash flows and discount rate
Deferred income taxes Estimates in the determination of deferred income taxes affect asset and liability balances.	• The determination of the deferred income tax balances of the Corporation requires management to make estimates of the reversal of existing temporary differences between the accounting and tax bases of assets and liabilities in future periods.	• Timing of reversal of temporary differences • Tax rates • Current and future taxable income